

CONSUMER NEWS

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Understanding How Your Health Insurance Dollar Is Spent

Across the country, health insurance premiums have been increasing at double-digit rates annually for a number of years, with no sign of slowing down. The challenge of maintaining affordable health insurance is at all unique to North Dakota, but is a national concern.

Increases in health insurance premiums across the nation are a product of overall increases in health care utilization, coupled with rising health insurance costs. North Dakota health insurance companies continue to maintain relatively low administrative expense costs, meaning a relatively larger portion of premiums are available to pay benefits.

Utilization

As the average age of the U.S. and North Dakota population gets older, we continue to place an increased demand on the health care system. As a simple illustration, a population of 25-year-olds will require fewer hip and knee replacements, angioplasties and blood-pressure medications than a population of 70-year-olds. As the Baby Boom generation continues to age, we can expect more and more people to utilize the health care system.

Additionally, highly effective advertising and marketing techniques by health care professionals and drug companies have helped Americans become better educated as to the medical opportunities available to them. Advances in medical technology are well-publicized and are demanded by more and more consumers.

Rising Health Care Costs

In America, we demand the best health care, and we receive it. A growing portion of our health care dollar is spent on new medical technologies and block-buster drugs, all designed to help us live healthier, longer lives. North Dakotans are fortunate to have an extraordinarily high standard of health care, with excellent hospitals, clinics, physicians and care-givers, using the best of today's medical technology. The costs involved in developing, purchasing and providing better medical technologies and pharmaceuticals are passed on to us, the health care consumers, primarily through our insurance.

Overhead costs for health care providers continue to climb. Liability and medical malpractice insurance rates have skyrocketed in recent years. These costs are passed to us, the health care consumers.

Indeed, a more-prevalent threat of malpractice litigation has itself changed the way many caregivers practice medicine today. This, too, increases our health care costs. Cost-effectiveness should be a primary factor considered by physicians when ordering medical tests and procedures. However, increasingly, physicians feel pressured to practice "defensive" medicine, which might include ordering any tests and procedures necessary to protect themselves from potential malpractice claims, no matter the cost. We all help pay for those additional tests and procedures.

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Who is Affected By Rising Costs?

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We all share in the costs of more expensive health care being provided to more and more people. Specifically, however, small businesses and individual health insurance consumers face particular challenges.

Small Businesses

More than 175 million American workers and retirees receive health care benefits through their employers. As businesses face increases in health care benefit costs, their bottom lines are adversely affected. Increases generally have been steeper for small businesses because they insure fewer people.

Where does the money go?

In general, approximately 40 cents on every health insurance premium dollar is paid to hospitals and other health care facilities, 30 cents to doctors and other health care professionals, 15 cents for prescriptions drugs, and 15 cents for insurance company administrative expenses and reserve funds. Reserve funds refer to dollars saved and invested by the insurance company to help make sure the company has sufficient money on hand to pay claims as they arise in the future.

Hospitals

Increases in hospital costs have been attributed to greater usage of hospital services and slightly higher prices resulting from inflation. Over the years, there has been no appreciable growth in hospital in-patient stays, but the number and frequency of health care services provided by those hospitals continue to increase.¹

Physicians and Other Health Care Professionals

Increases in this area have been associated with more office visits and increased use of imaging procedures. An additional factor that may be contributing to the increase is consumer demand for more loosely managed health care plans that give patients greater flexibility.² A more localized cause for the increase is the

Individuals

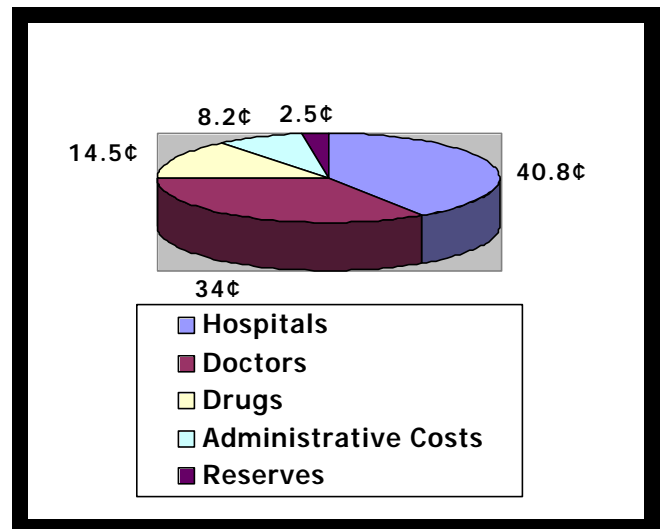
In 2000, on average, individual health insurance consumers in North Dakota paid \$1,744.00 per year for their health coverage.¹ It is estimated that within five years, the cost of health care coverage will average nearly 25 percent of wages.² In addition, it is estimated that national health expenditures are expected to nearly double over the next ten years.

1 Medical Expenditure Panel Survey.

<http://www.meps.ahrq.gov>

2 The Segal Company. 2003 Segal Health Plan Cost Trend Survey.

<http://www.segalco.com/publications/surveysandstudies/2>



shortage of certain health care providers in North Dakota, such as nurses. Such shortages may result in higher expenditures being required to recruit and retain providers.

Prescription Drugs

Growth in spending on prescription drugs exceeds that of other major cost components.³ In addition, spending rose more quickly for drugs than for

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Where Does the Money Go?

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any other health service.⁴ Many factors are cited as reasons for this increase. The list includes: higher prices for existing drugs, disproportionately higher prices for new drugs that are advertised prolifically, and last, people are just using more drugs. Drug advertising is seen as the engine of consumer demand and the internet is producing a much savvier consumer, who is demanding the latest and greatest.

What You Can Do

You can do several things to help slow down the rate at which health care spending is increasing:

- Become an educated health insurance consumer. Whether shopping for the lowest health insurance rates or asking medical questions of experts, learning to do research on the internet or by using other information sources, makes you a more informed consumer, thus bettering your chances of lowering your health care costs. In addition, comparing fees and costs for medical, pharmacy, and surgical procedures will give you a

Medicare

Another factor which may be contributing to the increase in health care costs in North Dakota is the decline in Medicare reimbursements. Reimbursements were cut by 5.4% in 2002, were slated to be cut by another 4.4% in 2003, and were expected to be around reduced another 4.2% in 2004.⁵ Additionally, North Dakota generally is funded at lower levels than other states, even though the costs of health care delivery are oftentimes higher here than elsewhere. These cuts place greater pressure on hospitals to increase revenues using other sources, such as increasing health care charges for non-Medicare patients.

1 American Association of Health Plans, "Research Highlights: National

better idea how much your health care is costing you. The better educated you are about health care, the more informed your decisions will be.

- Do not be afraid to ask your doctor questions. Write down your questions before your visit. Being actively involved in your health care decisions can reduce the amount of needless tests performed, will keep you better informed about the risk and benefits of procedures, and will give you more control over the amount of money that you are spending on your health care.

Health Care Costs Jump 8.7% in 2001."

http://www.aahp.org/Template.cfm?Section=Access_Cost&template=/TaggedPage/Portlet/Custom/IssueDisplayAll.cfm&ICL=2,14

2 American Association of Health Plans, "Research Highlights: National Health Care Costs Jump 8.7% in 2001."

http://www.aahp.org/Template.cfm?Section=Access_Cost&template=/TaggedPage/Portlet/Custom/IssueDisplayAll.cfm&ICL=2,14

3 Centers for Medicare and Medicaid Services, 2002

4 American Association of Health Plans, "Research Highlights: National Health Care Costs Jump 8.7% in 2001."

http://www.aahp.org/Template.cfm?Section=Access_Cost&template=/TaggedPage/Portlet/Custom/IssueDisplayAll.cfm&ICL=2,14

5 American Medical Association, <http://www.ama-assn.org/ama/pub/article/69307641.html>

- *Become an educated health care consumer*
- *Use Generic drugs*
- *Use the emergency room only for emergencies*
- *Live a healthier lifestyle*

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Mission It is the mission of the North Dakota Insurance Department to protect the public good by fairly and effectively administering the laws of North Dakota. We are committed to vigorous consumer protection efforts while fostering a strong, competitive marketplace that provides consumers with choices and access to high-quality insurance products and services at competitive prices. In pursuit of our mission, we will treat all of our constituencies with the highest ethical standards and respect they deserve.

Commissioner Jim Poolman



~ Serving the people of North Dakota Since 1889 ~

What You Can Do

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- If you are able, try to use generic drugs over brand name ones. You can save as much as 90% over the cost of brand-name medications. On average, most generic drugs are approximately half the price of their brand name counterparts.
- Save the emergency room for emergencies. It can be two to three times more costly to receive services in an emergency room than in a doctor's office.
- Reduce your chances of getting sick. If we are to reverse the trend of rising health insurance costs, we each should do our part by reducing our own

health care utilization. As the old saying goes, an ounce of prevention is worth a pound of cure. Perhaps the best advice to follow to avoid increasing high health insurance premiums as well as out-of-pocket health care expenses is to do the following:

1. Take advantage of free health screenings at local clinics, hospitals, or health fairs and practice self-examination.
2. Know early warning signs of potential health problems and consult a physician ASAP.
3. Live a healthier lifestyle. Eating a balanced diet, exercising, and quitting smoking goes a long way towards better health.

For More Information

The North Dakota Insurance Department has many publications available to help consumers. These can be requested from the Department by calling 1.800.247.0560 or can be downloaded from the Department's website at:

<http://www.state.nd.us/ndins/>

Other Helpful Sources of Information:

Health Policy Institute ?
2233 Wisconsin Avenue, N.W.,
Suite 525 ? Washington, DC,
20007 ?

<http://www.healthinsuranceinfo.net>

Families USA ? 1334 G Street
NW ? Washington, DC 20005 ?
<http://www.familiesusa.org>

Kaisernetwork ? 1330 G
Street, NW, Suite 250 ? Wash-
ington, DC 20005 ?
<http://www.kaisernetwork.org>

Healthfinder ? P.O. Box 1133
? Washington, DC 20013-1133
? <http://www.healthfinder.gov>

FirstGov for Consumers ?
<http://www.consumer.gov/health.htm>

**Center for Drug Evaluation
and Research ?**
800.INFO.FDA ?
<http://www.fda.gov/cder/index.html>

**Check out the Real Age
website at:**

<http://www.realage.com>